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SENSITIVE
SIPDIS

STATE PASS USGS FOR MICAEL FOOSE, INTERNATIONAL PROGRAMS
STATE PASS TO USAID AFR/SD FOR CURTIS, ATWOOD AND SCHLAGENHAUF
STATE PASS TO USTDA-PAUL MARIN
STATE PASS TO EXIM-JRICHTER
STATE PASS TO USTR-LAURIE-ANN AGAMA
STATE PASS TO OPIC-BARBARA GIBIAN AND STEVE SMITH
STATE FOR EEB/ESC/IEC/ENR-DAVID HENRY, CBA
STATE PASS TO S/CIEA-DAVID GOLDWYN AND MICHAEL SULLIVAN
DOC FOR 3317/ITA/OA/BURRESS AND 3130/USFC/OIO/ANESA/REED
USDOE FOR GEORGE PERSON AND THOMAS SPERL, OPIA
TREASURY FOR IERONIMO AND BARCAN, OAN
JOHANNESBURG FOR USTDA/JASON NAGY

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SUBJECT: NIGERIA SEEKS TO REKINDLE ITS DILAPIDATED MINING SECTOR -
PLATEAU STATE

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SUMMARY

¶1. (SBU) Nigeria, a leading hydrocarbon producer, has allowed its mineral sector to decline through an overdependence on oil and the relative neglect of its non-oil sectors. The Government of Nigeria (GON) now seeks to restore its mineral sector and declare itself "open for business." GON officials implemented new policy and legislation in 2007 that sought to create a more attractive minerals investment environment, but still needs to establish implementing regulations to provide an investor-friendly framework. The Embassy Minerals Team found enthusiasm for mining in the old, tin-mining capital of Jos in Plateau State, but existing mining activity is vestigial, artisanal, and lacking in significant domestic and foreign investment. The World Bank has promulgated a small-scale mining program that has funded a mining institute in Jos and may be able to play a useful role. The USGS may be able to partner some activities with the World Bank. Scope exists for further minerals assessment in other regions in Nigeria. END SUMMARY.

OVERVIEW OF THE MINERALS TEAM VISIT

¶2. (U) The Minerals Team, comprised of Embassy Abuja Economic Counselor and Deputy Chief, Embassy Pretoria Minerals/Energy Officer and Specialist, and USGS Africa Coordinator, conducted meetings

recently in Abuja and in and around the Plateau State capital of Jos to assess the status and potential of minerals production in Nigeria. The Minerals Team worked closely with former Commissioner of Mines Markus Pwajok and Engineer Francis Ahmadu to generate a full program involving a dinner meeting with government representatives, visits to three active mines, a tour of the Nesco Power Plant, and a Miners Roundtable at the Nigerian Institute of Mining. The team also visited the Nigerian Extractive Industries Transparency Initiative (NEITI), the Sustainable Management of Mineral Resources Project, and the Nigerian Geological Survey Agency in Abuja.

13. (U) Mining has occurred in Plateau State as far back as 1902. The British developed a robust tin, columbite, and associated minerals exploitation during colonial times, but these suffered from tin price busts, under-investment, and nationalization over time. The state claims to have very large reserves of tin-related minerals columbite, cassiterite, and zircon, which have specialized uses as tantalum, niobium, and alloy products used in aircraft engines and Qntantalum, niobium, and alloy products used in aircraft engines and nuclear reactors. In addition, significant potential exists for extracting gemstones, lead, zinc, kaolin (for pharmaceuticals and detergents), tantalite (computers, aircraft, and nuclear systems), gypsum, dimension stone, and titanium.

MINING ROUND-TABLE - CHALLENGES AND OPPORTUNITIES

14. (SBU) The team's flagship event involved the Miners Roundtable at the Nigerian Institute of Mining on September 29, televised and covered by the local press. Economic Counselor noted the positive attributes for Jos in attracting mining investment: the plateau's relatively pleasant climate, a reliable source of power, a good

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international school, and proven reserves. The key challenges he identified included: obtaining domestic or foreign financing, volatile commodity prices, and assuring a stable investment environment. Various mining representatives asserted that the region possessed adequate and economic mineral deposits and proven reserves, although a few noted that the information was out-dated. Consolidated Tin Mines (CTM) Managing Director Frank Kwueme said they had 80,000 tons of proven reserves of cassiterite and 14,000 tons of columbite under 600 leases previously owned by Amalgamated Tin Mines. He asserted that this was based on reliable (albeit old) work done by the British. Kwueme applauded the GON decision eventually to privatize the 60 percent stake it held as a result of nationalization in 1972. He and others noted that nationalization was an abject failure that created a legacy of under-investment in the sector. (He cited the image of the large, defunct Bucyrus Erie drag line that has rusted in place next to a flooded strip mine on the edge of Jos.) Kwueme observed that the new mining legislation imparted a spirit to promote investment. He also noted that CTM has a legacy of liabilities that complicate privatization (i.e., \$2 million in unfunded obligations to former employees and suppliers).

15. (SBU) CTM and other mining representatives lamented the dearth of capital and equipment available as companies have departed the sector. Many participants noted the environmental contingent liability from the years of mining and then neglect, resulting in around 4,000 flooded and, according to some, toxic pits in the area. The new law requires adequate rehabilitation, but it is unclear how effectively it will be implemented. Participants cited the new Nigerian Institute of Mining as a useful establishment to develop human resources. Pennsylvania State, already involved in curriculum development, will train trainers in early 2011. The World Bank-funded institute could be a partner for the USGS in Nigeria. The team toured the facility which includes multiple classrooms and a minerals processing area, available for both research and practical use by miners.

SMALL-SCALE AND ARTISANAL MINING

16. (SBU) The three active mines visited around Jos were small-scale, almost artisanal in scope. Rayfield Mine owner/operator Joshua Egbagbe hosted the Minerals Team at his open pit "junior-miner" QEgbagbe hosted the Minerals Team at his open pit "junior-miner" columbite mine on September 28. He told the team that his mine, with a potential of 50-100 tons per month (\$500,000 per month at current prices), was substantially shut down because of the price drop. He said he had partnered with a Russian interest and had entertained unrequited interest from Chinese and South African investors. Egbagbe criticized the Chinese as murky buyers, alleging that Chinese interests had unsuccessfully sought to steal rights to the ground beneath his mine. He lets some 500 artisanal workers operate freely on the mine pit site. The Minerals Team observed that any serious investor would want to carefully remove the informal mining by job offers or compartmentalizing their activities; any attempt to drive them off could easily result in the sabotage of unfenced and unguarded equipment.

17. (SBU) The Rim Mine is a small-scale operation, reached by fording a small river. (The Minerals Team shared boots and/or were ferried across on the backs of workers.) This mine relies on a dilapidated pump to supply water for sluicing to provide primary separation of

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tin, ilmenite, and cassiterite-bearing ores, mined under a 60-foot over-burden. The economics of the mine looked challenging, exacerbated by the antiquated pump. The Minerals Team will look at potential sourcing of a jig that might be used by the Minerals Institute to help this and other mines increase the recovery of tin, ilmenite, and cassiterite, for which much of the finer material is currently washed down the river. This mine is an old lease of Consolidated Tin Mines. The Team also visited the small-scale Sho mine, which is exploiting kaolin and gypsum. This mine employs a crusher to generate 90 tons per month of Kaolin worth \$50 per ton. The kaolin is used as filler for detergent, paint, and fertilizer produced in Nigeria.

VINTAGE HYDRO-PLANT PROVIDES RELIABLE POWER SOURCE

18. (SBU) Plateau State enjoys adequate power supply, which is unusual in Nigeria. The team visited the 1929 British-colonial-vintage Nesco Power Plant which produces 25 megawatts out of an installed capacity of 33 megawatts. The plant houses three turbines turned by gravity-fed water pipelines below the Kura dam. The management is successfully maintaining the old equipment and selling power and serving as a stand-by for the Nigerian grid in Plateau State. The Nesco Plant sits in a spectacular canyon off the Plateau escarpment, which has significant unrealized tourism potential.

19. (SBU) The Abuja office of the Nigeria Extractive Industries Transparency Initiative (NEITI) provided additional perspective on the mining sector. The NEITI is viewed as an EITI "good pupil", achieving great success in implementing the initiative in Nigeria's hydrocarbon sector as a way of building domestic trust and confidence. NEITI Director Stan Rerri participated in an EITI workshop in South Africa, aimed at prodding South Africa to become an implementor and leader on the continent for EITI. The NEITI management admitted to the Minerals Team that the NEITI needed to do more ground-work on solid minerals to allow solid minerals before allowing their inclusion in its implementation work.

POSITIVE MINING LEGISLATION, BUT REGULATIONS DELAYED

110. (SBU) The GON decided to promote exploration and development investment in its solid minerals sector following almost 50 years of Qinvestment in its solid minerals sector following almost 50 years of neglect. Nigeria was one of the world's biggest producers of tin, but a combination of "Dutch Disease", caused by the discovery of oil, and nationalization of mines following independence in 1960 has reduced the mining industry to a few small mines and hundreds of

informal (subsistent) workings. The GON produced a new minerals policy document and a minerals and mining act in 2007 to encourage investment. The accompanying regulations have not yet been published and are still being negotiated, although industry has been minimally consulted.

¶11. (SBU) The National Minerals and Metals Policy of January 2008 stipulates that minerals are owned by the state and are to be exploited for the benefit of Nigerians. It makes clear government's intention that industry must be driven by private investment,

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management, and operation. The document appears to be an "apple pie" expression of all things a potential investor wants to hear and differs little from mining policies the world over. Its main tenets involve privatization of the industry, security of tenure, and minimum government interference in the running of mines and marketing of product. Indigenization and adding value to raw materials is an expressed GON goal.

¶12. (U) The Nigerian Minerals and Mining Act of 2007 addresses most aspects of the governance of the mineral industry, the various types of permits, leases and licenses available, their qualifying requirements and durations, and time limits in which government officials must reply to the respective applications, usually within 30 to 45 days. These include:

- reconnaissance permit for one year and renewable;
- exploration license for three years and renewable;
- small-scale mining lease for a time dependent on the particular circumstances;
- mining lease for 25 years and renewable;
- quarry lease for five years and renewable; and
- water use permit, presumably for the period of the specific right granted.

¶13. (SBU) Important provisions address requirements for environmental management, access to a deposit with compensation to land-owners for damages incurred, freedom to market mineral products, freedom to maintain off-shore revenues for purchases of capital equipment and supplies, together with other concessions, conditions, stipulations, and requirements. One concerning aspect is the mining company's need to negotiate a consensus social plan and "approval-to-mine" from all affected communities, which introduces uncertainty and may delay or even prevent the start of proposed mining operations. Specific implementation details must await the publishing of the Regulations. South African Mining Expert Peter Leon recently publicly characterized Nigeria's mining regime and cadastre as effective and a potential model for South Africa.

COMMENT

¶14. (SBU) Nigeria still has a long way to go to demonstrate large, commercial reserves that can draw domestic and foreign investors. Large-scale investment will require proven reserves, a stable investment environment, and assurances on environment or other liabilities. Nigeria seems to have lost most of its mining culture as a result nationalism, neglect, and under-investment. Opportunities exist for the USGS and other agencies to assist the GON's new-found objective to develop its solid minerals sector. Jos QGON's new-found objective to develop its solid minerals sector. Jos city and the Plateau State appear to be likely targets, given their history of tin-mining and the remains of a once-thriving mining culture. They have many qualities that could lure investment, but the area has experienced some recent political conflict over political franchise and perceived disenfranchisement between ethnic/religious groups.

¶15. Embassy Abuja, Embassy Pretoria, and the U.S. Geological Service collaborated on this telegram.